Case 4:20 EQA 6 3 EQUIVERS # ON DOTO PROPERTY MENTILE BY TO SOLD # 23 EAPER 1 of 22

From: Joe Babcock

Sent: Thu, 13 Feb 2020 20:37:18 +0000 (UTC)

To: Tim Sweeney , David Wallerstein , Ben Feder , Mark Rein , Jay Wilbur

Cc: Randy Gelber

Subject: Epic Games – 4Q19 Business Report

Attachments: Epic Games - 4Q19 Business Report.pdf; Epic Games - 4Q19 Business Report - Redacted.pdf

Epic Board,

Epic generated \$998 million of gross revenue in 4Q19 to reach \$4.22 billion in 2019. Fortnite welcomed 11 million new players in December 2019, the highest monthly performance since December 2018 when 14 million new players joined the Fortnite ecosystem. Fortnite finished the year with 68 million MAUs in December 2019 and maintained that player base in January 2020. The Epic Game Store finished 2019 with 30 million life-to-date PC accounts (ex-Fortnite) and \$233 million in gross revenue. We see 2020 as a year of investment across all core businesses and are taking the necessary steps to return Fortnite to growth mode towards the end of the year.

Highlights:

- Total gross revenue in 4Q19 was \$998 million, down 40% YoY. Total gross revenue in 2019 was \$4.22 billion, down 25% YoY.
- Game revenue in 4Q19 was \$849 million, 85% of total gross revenue. Game revenue in 2019 was \$3.81 billion, representing 90% of revenue
 - Fortnite generated \$805 million in revenue during the guarter —

. Full year *Fortnite* revenue in 2019 was \$3.71 billion

- Rocket League generated \$41 million in gross revenue during the fourth quarter with \$20 million in December alongside the launch of the Item Shop.
- Engine revenue in 4Q19 was \$36 million. Engine revenue for 2019 was \$97 million.
 - Engine License & Royalty revenue in 4Q19 was \$31 million, 85% of total Engine revenue. Royalty payments accounted for \$8 million (27%),
 - Engine Enterprise contributed \$3 million in 4Q19,

Total 2019 enterprise revenue was \$10 million.

- Engine Marketplace recorded revenue of \$2 million in 4Q19. Total Engine Marketplace revenue in 2019 was \$8 million.
- Epic Game Store generated \$76 million in 4Q19. The Epic Games Store ended December with 8 million MAUs. For the full 2019 year, Epic Game Store achieved \$233 million in gross sales. More than 60 exclusive PC titles launched on the platform by the end of 2019 and the current portfolio has recouped 35% of \$579 million in cumulative minimum guarantees, up from 21% six months ago.

 The Epic Game Store signed agreements in 4Q19 for 11 upcoming exclusive titles with \$34 million in MGs, bringing the cumulative MG total to \$1.12 billion for more than 100 titles (approximately half of that has already been paid out).
- EBITDAB in 4Q19 was \$198 million. Full year 2019 EBITDAB was \$1.26 billion. Gross margin for the quarter was 37%, behind 43% for the full year primarily driven by Epic Game Store costs and higher levels of UA spend around the holiday season. Operating expenses were \$170 million for the quarter, while 2019 operating expenses were \$576 million. EBITDA in 4Q19 was \$101 million, reflecting \$96 million in bonus-related compensation (~\$20 million was M&A related). Full year 2019 EBITDA was \$732 million.
- Cash balance was \$2.4 billion as of December 31st. Accounts Receivable at quarter end was \$413 million. Approximately 98% of cash is in US dollars with 63% held by Epic Games, Inc.

2020 Outlook

- Fortnite Our key focus in 2020 is to return Fortnite to growth mode and evolve Battle Royale by offering new playing experiences. The release of Chapter 2 and new features such as skill-based match-making, bots, and split-screen have enabled us to re-engage lapsed players and retain existing players, highlighted by our success in maintaining 68 million MAUs in January 2020 (equal to December 2019). We expect to do more brand integrations over the course of 2020 and evolve the game across multiple areas: new physics system; enhanced UI and storefront; an immersive, emergent, shared world; gameplay that feels real and maps to the physical world; a progression system; questing; PvE interactions, and an MMO-lite experience for the holidays.
- **Project Valkyrie** In 2020, we are also focused on building out a suite of UE development tools within *Fortnite* to enable creators to generate new content. We expect Valkyrie to grow *Fortnite* Creative significantly from the 46 million MAUs at the end of 2019 and drive the next leg of growth for the platform.
- Epic Game Store We plan to continue investing in the Epic Games Store in 2020 with fewer, bigger, better titles to minimize MG risk, along with shipping critical player and developer store features, and building out a 3rd-party publishing arm with 50/50 economics after we recoup full development and marketing expenses.
- Engine Our priority in 2020 is to gain adoption in Enterprise and capture fair value with game licensing and royalties. We see the upcoming release of Unreal Engine 5 (to be announced at GDC 2020 in March) in 2021 as a major catalyst for the business.
- We expect consolidated gross revenue to decline 9% to \$3.85 billion in 2020 Games: \$3.29 billion, Engine: \$100 million, Epic Game Store: \$401 million, and Merchandise & Other: \$60 million. We now expect EBITDA for 2020 to be \$650 million, down 11% YoY, primarily reflecting a larger employee base.
- Our **Esports** strategy continues to evolve. We will not host a World Cup event in 2020. In addition to competitive payouts, we plan to drive influencer-led event opportunities, international regional events, and scholastic programs to appeal to a wider audience. We expect Esports cost to be \$85 million in 2020, down from \$214 million in 2019.

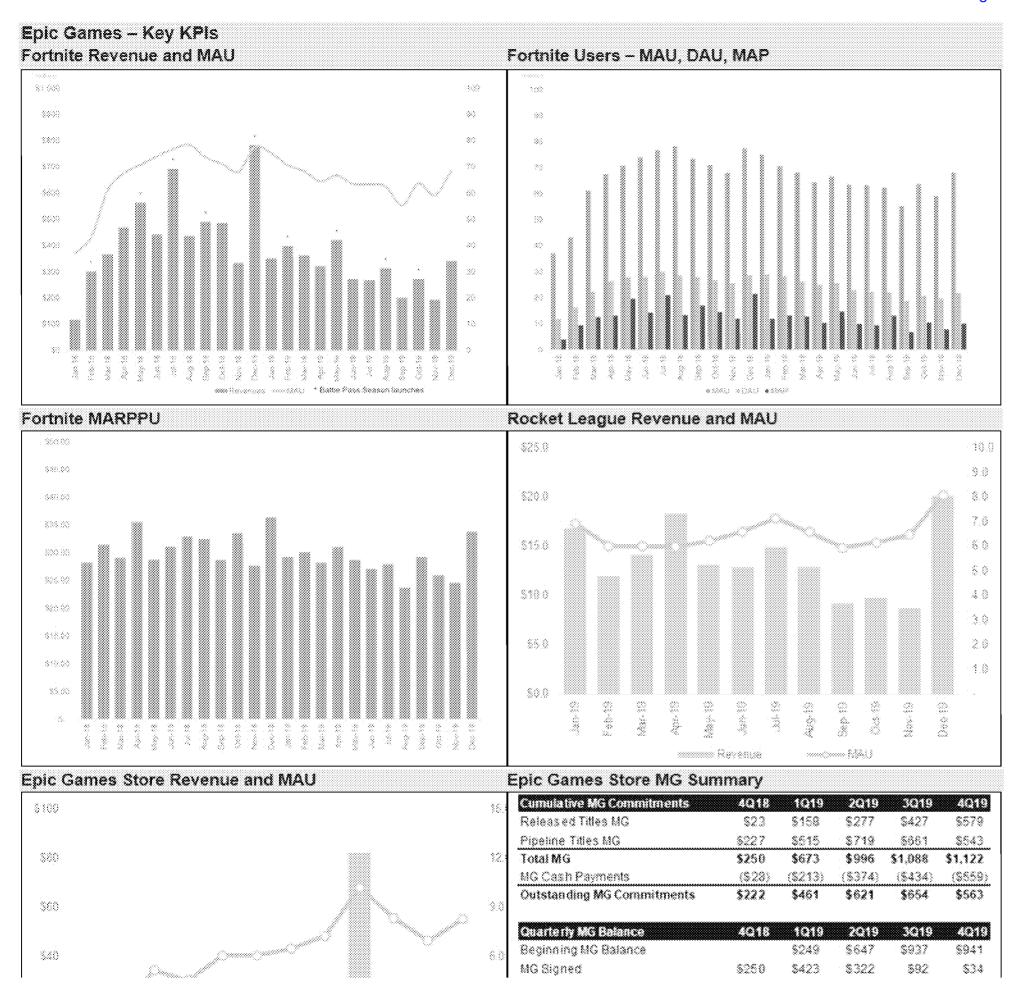
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While we continue to scale out our businesses, our hiring plans reflect a moderation in hiring and we expect an increase of 300 employees this year to reach 2,232 globally by the end of 2020.



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(Sin millions)		š								
_	Oct-19A	Actuals Nov-19A	Dec-19A	4019	Jan-20F	Feb-20F	Mar-20F	1020	2019A	2020
Fortnite	\$272	\$193	\$340	\$805	\$181	\$225	\$154	\$560	\$3,709	\$3,036
Other	11	12	21	43	10	8	8	27	100	251
Game Revenue	\$283	\$205	\$361	\$84 9	\$191	\$2 33	\$1 63	\$587	\$ 3,810	\$ 3, 2 87
Game License & Royalties	\$17	\$6	\$8	S 31	\$7	\$9	\$11	\$27	\$79	\$82
Enterprise	2	0	1	3	1	4	4	2	10	10
UE Asset Marketplace	:	1	*	2	0	0	*	*	8	8
Engine Revenue	\$20	\$7	\$9	\$3 6	\$8	\$10	\$12	\$30	\$97	\$100
Epic Game Store	\$26	\$22	\$29	\$ 76	\$19	\$17	\$34	\$ 70	\$233	\$401
Merchandise/Other	\$0	\$5	\$32	\$ 38	\$0	\$0	\$7	\$7	\$82	\$60
Total Net Revenue	\$329	\$2.30	9 431	\$998	\$218	\$260	\$215	\$694	\$4,221	\$3,848
Platform Royalties	(\$78)	(\$56)	(\$98)	(\$233)	(\$52)	(\$63)	(544)	(\$159)	(\$1,057)	(\$885
Production/Hosting Costs	(29)	(24)	(27)	(80)	(24)	(23)	(22)	(69)	(290)	(281
Play er Support	(5)	(6)	(5)	(16)	(6)	(6)	((15)	(59)	(56
SaC (Support-a-Creator)	(5)	(4)	(17)	(26)	(4)	(5)	(4)	(12)	(115)	(70
Core UA, Marketing IP, etc	(8)	(29)	(27)	(54)	(8)	(13)	(10)	(31)	(161)	(238
UA.	(13)	(34)	(43)	(90)	(12)	(17)	(14)	(43)	(276)	(307
Payment Processing Fees	(3)	(2)	(2)	(7)	(2)	(2)	(2)	(6)	(28)	(34
EGS/Marketplace Costs	(52)	(52)	(54)	(158)	(50)	(48)	(51)	(149)	(485)	(847
Esports Costs	(2)	(6)	(38)	(46)	· 6		(15)	(15)	(214)	(85
Cost of Sales	(\$182)	(\$180)	(\$268)	(\$ 630)	(\$145)	(\$159)	(\$1 53)	(\$457)	(\$2,390)	(\$2,295
Gross Income	\$147	\$58	\$ 163	\$368	\$ 73	\$101	\$62	\$237	\$1,831	\$1 ,554
Grose Margin	44.7%	24.5%	37.6%	36.9%	33.6%	38 9%	28.8%	34.1%	43 4%	40 4%
People	(\$28)	(\$26)	(\$32)	(\$85)	(\$28)	(\$29)	(\$29)	(\$86)	(\$275)	(\$388
Outsourcing	(12)	(13)	(13)	(38)	(13)	(13)	(13)	(39)	(110)	(152
Events/Marketing	(5)	(4)	(5)	(14)	(4)	(3)	(10)	(18)	(59)	(63
ff	(3)	(4)	٩	(10)	(3)	(3)	(3)	(10)	(39)	(43
Consulting	(1)	(1)	(1)	(3)	(1)	(1)	(1)	(4)	(14)	(15
Legal & Accounting Travel & Entertainment	(1)	(2)	(3)	(\$)	(2)	(2)	(3) (2)	(7) (5)	(30)	(33
Facilities	(1) (1)	(2) (2)	(2) (2)	(4) (5)	(2) (2)	(2) (2)	1,2; (2)	(5)	(18) (17)	(21 (22
Other	** -{ 1 }	*/ (1)	(3)	(4)	(2)	(2)	(2)	(5)	(15)	18)
Total Operating Expense	(\$54)	(\$54)	(\$63)	(\$170)	(\$57)	(\$57)	(\$64)	(\$178)	(\$576)	(\$722
EBITOAB	\$ 93	\$5	\$100	\$198	\$1 6	\$44	(\$2)	\$58	\$1,255	\$831
EBIT excl. Bonus Margin	26.4%	20%	23.1%	19.8%	7.4%	17.1%	(1 196)	8 4%	29 7%	21.6%
Bonus	(\$3)	(\$8)	(\$86)	(\$96)	(\$6)	(\$44)	w. 100	(₩0)	(\$523)	(\$181
EBITDA	\$90	(\$3)	\$14	\$101	\$11	\$0	(\$2)	\$9	\$732	\$650
EBIT Margin	27.5%	(1.39%)	3.3%	10.2%	4.9%	0.1%	(1.196)	1.2%	37.3%	18 9%
Head Count	1,847	1,908	1,932	1,932	1,962	1,977	1,992	1,992	1,932	2, 232

(S in millions)										
1001000	1019	Actuals 2019	3019	4019	1Q20F	2Q20F	3Q20F	4Q20F	2019A	2020
Fodnite	\$1,109	\$1,014	\$782		\$680	8823	\$731	\$1,121	\$3,709	\$3,036
Other	्। ज्ञाः, १ ५ ७	43	43	43	27	34	363 36	94	100	33,030 251
Game Revenue	\$1,109	\$1,027	\$825	\$949	\$587	\$657	\$927	\$1,216	\$3,810	\$3,287
Game License & Roy alties	\$12	\$21	\$15	\$31	\$27	\$23	\$15	\$18	\$79	\$80
Enterprise	2		3	3	2	2	2	4	10	10
UE Assel Marketplace	1	2	2	2	*	2	2	2	<u> </u>	Ş
Engine Revenue	\$16	\$25	\$20	\$ 36	\$ 30	\$27	\$19	\$23	\$97	\$100
Epic Game Store	\$27	\$35	\$96	\$76	\$ 70	\$92	\$94	\$14 5	\$233	\$401
Merchandise/Other	\$10	\$15	\$20	\$38	\$7	\$11	\$15	\$28	\$82	\$60
Total Net Revenue	\$1,161	\$1,102	\$960	\$998	\$694	\$787	\$956	\$1,412	\$4,221	\$3,848
Platform Royatties	(\$305)	(\$292)	(\$227)	(\$233)	(\$159)	(\$178)	(5221)	(5327)	(\$1,057)	(\$885
Production/Hosting Costs	(70)	(71)	(69)	(80)	(69)	(66)	(70)	(75)	(290)	(281
Play er Support	(13)	(15)	(15)	(16)	(15)	(14)	(13)	(13)	(59)	(56
SaC (Support-a-Creator)	(57)	(17)	(15)	(26)	(12)	(14)	(17)	(26)	(115)	(70
Core UA, Marketing, IP, etc.	(42)	(29)	(26)	(64)	(31)	(81)	(50)	(75)	(161)	(23%
U.S.	(99)	(46)	(41)	(90)	(43)	(96)	(68)	(101)	(276)	(307
Payment Processing Fees	Ø	(7)	(7)	(7)	(6)	(8)	(8)	(12)	(28)	(34
EGS/Marketplace Costs	(48)	(71)	(188)	(158)	(149)	(198)	(145)	(158)	(465)	(647
Esports Costs	(8)	(18)	(142)	(46)	(15)	(25)	(25)	(20)	(214)	(85
Cost of Sales	(\$549)	(\$521)	(\$690)	(\$ 630)	(\$ 457)	(\$584)	(\$ 550)	(\$704)	(\$2,390)	(\$2,295
Gross Income	\$612	\$581	\$270	\$368	\$2 37	\$203	\$4 06	\$708	\$1,831	\$1,554
Grose Margin	\$2.7%	52.7%	28,1%	36.9%	34.1%	25.8%	42.5%	50.2%	43.4%	40.4%
People	(\$52)	(\$60)	(\$77)	(\$85)	(\$86)	(\$88)	(\$93)	(\$99)	(\$275)	(\$365
Outsourcing	(20)	(22)	(31)	(39)	(39)	(40)	(35)	(35)	(110)	(152
Events/Marketing	(12)	(20)	(12)	(14)	(18)	(12)	(11)	(11)	(59)	(52
IT Committee of	(10)	(7) (5)	(12)	(10)	(10)	(11)	(11)	(11)	(39)	(43
Consulting Legal & Accounting	(3) (6)	(10)	(3) (8)	(3) (6)	(4) (7)	(4) (8)	(4) (8)	(4) (9)	(14) (30)	(15 (32
Travel & Entertainment	(4)	(4)	(5)	(4)	(\$)	(5)	(8)	(5)	(18)	(21
Facilities	(3)	(4)	(5)	(5)	(5)	(5)	(5)	(5)	(17)	(22
Other	(3)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(15)	(18
Total Operating Expense	(\$114)	(\$135)	(\$156)	(\$170)	(\$178)	(\$178)	(\$182)	(\$1 85)	(\$ 576)	(\$722
EBITDAB	\$4 99	\$4 45	\$113	\$198	\$ 58	\$2 5	\$224	\$524	\$1,255	\$831
EBIT ext! Bonus Wargin	42.9%	40.4%	11.8%	19.8%	8 4%	3.2%	23.3%	37.1%	29.7%	21.6%
Bonus	(\$180)	(\$143)	(\$103)	(\$96)	(\$80)	(\$28)	(\$38)	(286)	(\$823)	(\$ 181
EBITOA	\$ 348	\$302	\$10	\$101	\$ 9	(\$3)	\$187	54 68	\$732	\$650
EBIT Margin	27.4%	27.5%	1.1%	10.2%	1.2%	(0.3%)	19.5%	32 4%	17.3%	16.9%
Head Count	1,312	1,666	1,817	1,932	1,992	2,052	2,142	2,232	1,932	2,232

Epic Games – Cash Flow Statement

(in millions of USS)	3 Months ended 12/31/2018	3 Months ended 12/31/2019	12 Months ended 12/31/2018	12 Months ended 12/31/2019
Cash flows from operating activities				
Net income	766	138	2,843	642
Non-cash flow adjustments	5	12	20	43
Net changes in working capital	(81)	(37)	(642)	190
Net cash provided by (used in) operating activities	691	113	2,221	875
Cash flows from investing activities				
Purchase of property and equipment	(5)	(29)	(36)	(63)
Investment in affiliate	~	(8)	·	(10)
Business aquisitions, net of cash acquired	(35)	(43)	(34)	(661)
Net cash (used in) investing activities	(40)	(80)	(70)	(734)
Cash Flows from financing activities				
Proceeds from line of credit		**	(15)	
Distribution of dividends	(173)	3	(173)	. v. .
Share buyback	(1,096)	· *	(1,096)	(261)
Proceeds from stock issuance	1 235	0 c	1,574	30
Proceeds from exercise of stock options		~: 	1	
Net cash provided by (used in) financing activities	(34)	Total Control	291	(261)
Exchange differences on cash and cash equivalents	(O)	*	(0)	ž
Net change in cash and cash equivalents	617	34	2,442	(118)
Cash and cash equivalents (inclusive of marketable securities)				
Beginning of period	1,921	2,386	97	2,538
End of period	2,538	2,420	2.538	2,420

Epic Games – Balance Sheet

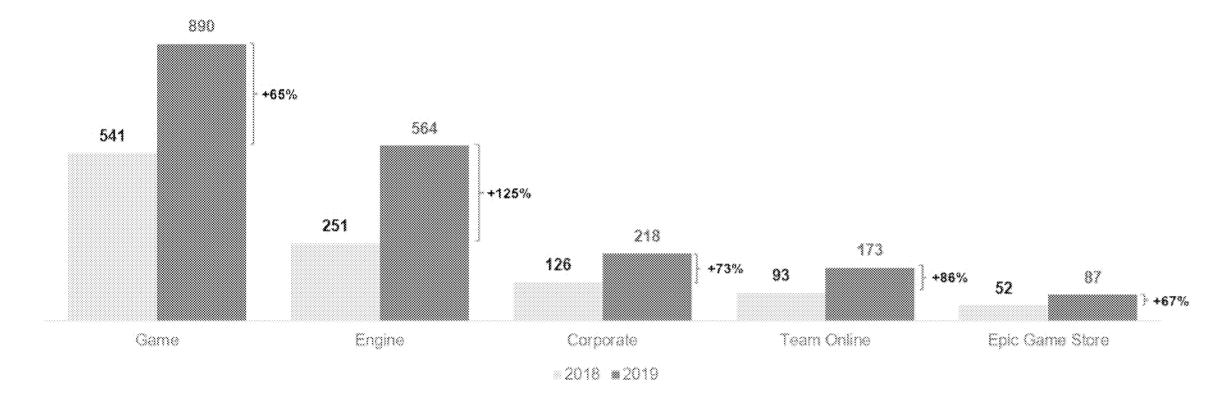
(S in millions)	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019
ASSETS					
Current Assets					
Cash and cash equivalents	2,538	2,774	2,275	2,386	2,420
Accounts receivable	767	490	458	372	413
Income tax receivable	No.	**			4
Prepaids and other current assets	46	272	448	328	333
Total Current Assets	3,351	3,536	3,181	3,086	3,170
Non-Current Assets					
Property and equipment, net	61	74	93	109	112
Goodwill	41	148	780	767	666
Intangible assets, net	*	0	11	3	29
CSV of life insurance	3	3	3	3	3
Investments	4	1	3	. 3	10
Deferred tax asset	76	76	18	17	18
Other assets	2	1	4	10	15
Total Non-Current Assets	184	303	911	920	853
TOTAL ASSETS	3,538	3,839	4,093	4,006	4.023
LIABILITIES					
Current Liabilities					
Accounts payable	29	71	72	60	92
Accrued expenses	68	94	67	142	164
Income tax Payable	2	14	19	47	
Current portion of deferred revenue	109	109	221	210	107
Total Current Liabilities	208	288	379	459	364
Long Term Liabilities					
Deferred revenue, less current	21	21	54	52	19
Loan payable, long-term	4	4	4	11	***
Other liabilities		**	7	÷:	*************************************
Total Long Term Liabilities	24	24	65	63	30
TOTAL LIABILITIES	232	312	443	522	394
EQUITY	***************************************				
Common stock	Æ.	.us.	···	0	1
Additional paid-in-capital	697	647	1,816	1,679	1,834
Unrealized FX gain/loss	(1)	(0)	1	(0)	1
Retained earnings	2 608	2,880	1,833	1,805	1,794
Total Equity	3,304	3,526	3,650	3,484	3,629
TOTAL LIABILITIES AND EQUITY	3,536	3,839	4.093	4,006	4,023

Epic Games – Headcount Summary

	2018	2019	Δ	%∆	% of '19
Game	541	890	349	+65%	46%
Engine	251	564	313	+125%	29%
Corporate	126	218	92	+73%	11%
Team Online	93	173	80	+86%	9%
Epic Game Store	52	87	35	+67%	5%
Total	1,063	1,932	869	+82%	100%
		W	&A represe	nts	
			36% of 201	9	

	2018	2019	Δ	%∆	% of '19
US	770	1309	539	+70%	68%
Serbia	0	117	117	*	6%
Canada	39	115	76	+195%	6%
China	79	94	15	+19%	5%
UK	70	86	16	+23%	4%
Sweden	10	50	40	+400%	3%
Finland	29	43	14	+48%	2%
Germany	23	41	18	+78%	2%
Korea	23	24	1	+4%	1%
Japan	12	20	8	+67%	1%
France	0	15	15	*	1%
Other	8	18	10	+125%	1%
	1,063	1,932	869	+82%	100%

2018 and 2019 Employee Summary



Epic Games – 4Q19 Business Report

Epic Board,

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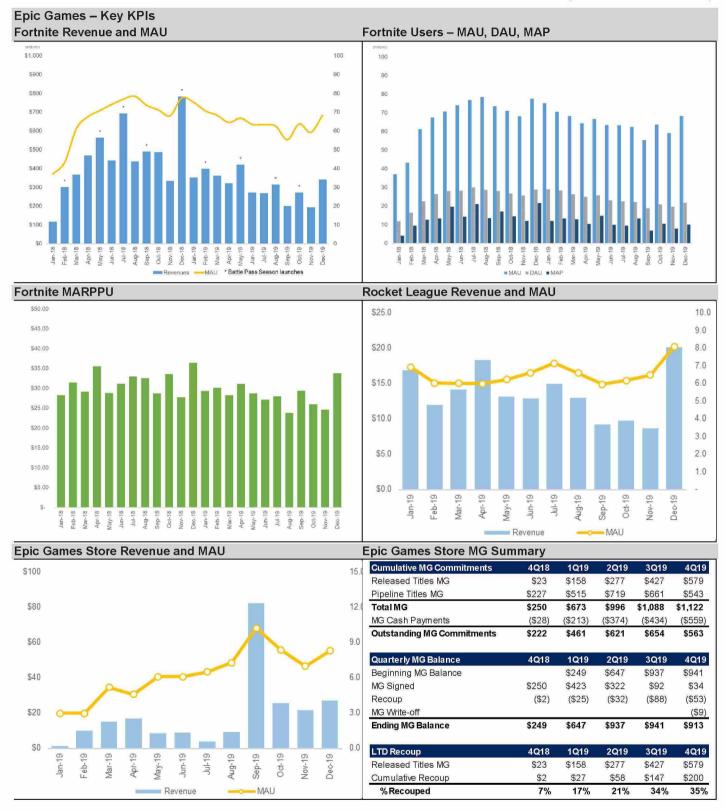
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- We expect consolidated gross revenue to decline 9% to \$3.85 billion in 2020 Games: \$3.29 billion, Engine: \$100 million, Epic Game Store: \$401 million, and Merchandise & Other: \$60 million. We now expect EBITDA for 2020 to be \$650 million, down 11% YoY, primarily reflecting a larger employee base.
- Our Esports strategy continues to evolve. We will not host a World Cup event in 2020. In addition to
 competitive payouts, we plan to drive influencer-led event opportunities, international regional events, and
 scholastic programs to appeal to a wider audience. We expect Esports cost to be \$85 million in 2020,
 down from \$214 million in 2019.
- While we continue to scale out our businesses, our hiring plans reflect a moderation in hiring and we expect an increase of 300 employees this year to reach 2,232 globally by the end of 2020.



Epic Games - Monthly I	ncome Statem	ent, 4Q19A	– 1Q20F							
(\$ in millions)		W. F								
=	Oct-19A	Actuals Nov-19A	De c-19A	4Q19	Jan-20F	Feb-20F	Mar-20F	1Q20	2019A	20201
Fortnite	\$272	\$193	\$340	\$805	\$181	\$225	\$154	\$560	\$3,709	\$3,036
Other	11	12	21	43	10	8	8	27	100	251
Game Revenue	\$283	\$205	\$361	\$849	\$191	\$233	\$163	\$587	\$3,810	\$3,287
Game License & Royalties	\$17	\$6	\$8	\$31	\$7	\$9	\$11	\$27	\$79	\$82
Enterprise	2	0	1	3	1	1	1	2	10	10
UE Asset Marketplace	1	1	1	2	0	0	1 [1	8	8
Engine Revenue	\$20	\$7	\$9	\$36	\$8	\$10	\$12	\$30	\$97	\$100
Epic Game Store	\$26	\$22	\$29	\$76	\$19	\$17	\$34	\$70	\$233	\$401
Merchandise/Other	\$0	\$5	\$32	\$38	\$0	\$0	\$7	\$7	\$82	\$60
Total Net Revenue	\$329	\$238	\$431	\$998	\$218	\$260	\$215	\$694	\$4,221	\$3,848
Platform Royalties	(\$78)	(\$56)	(\$98)	(\$233)	(\$52)	(\$63)	(\$44)	(\$159)	(\$1,057)	(\$885
Production/Hosting Costs	(29)	(24)	(27)	(80)	(24)	(23)	(22)	(69)	(290)	(281
Player Support	(5)	(6)	(5)	(16)	(5)	(5)	(5)	(15)	(59)	(56
SaC (Support-a-Creator)	(5)	(4)	(17)	(26)	(4)	(5)	(4)	(12)	(115)	(70
Core UA, Marketing, IP, etc	(8)	(29)	(27)	(64)	(8)	(13)	(10)	(31)	(161)	(238
UA	(13)	(34)	(43)	(90)	(12)	(17)	(14)	(43)	(276)	(307)
Payment Processing Fees	(3)	(2)	(2)	(7)	(2)	(2)	(2)	(6)	(28)	(34
EGS/Marketplace Costs	(52)	(52)	(54)	(158)	(50)	(48)	(51)	(149)	(465)	(647
Esports Costs	(2)	(6)	(38)	(46)	irė	: *	(15)	(15)	(214)	(85
Cost of Sales	(\$182)	(\$180)	(\$268)	(\$630)	(\$145)	(\$159)	(\$153)	(\$457)	(\$2,390)	(\$2,295
Gross Income	\$147	\$58	\$163	\$368	\$73	\$101	\$62	\$237	\$1,831	\$1,554
Gross Margin	44.7%	24.5%	37.8%	36.9%	33.6%	38.9%	28.8%	34.1%	43.4%	40.4%
People	(\$28)	(\$26)	(\$32)	(\$85)	(\$28)	(\$29)	(\$29)	(\$86)	(\$275)	(\$365
Outsourcing	(12)	(13)	(13)	(38)	(13)	(13)	(13)	(39)	(110)	(152
Events/Marketing	(5)	(4)	(5)	(14)	(4)	(3)	(10)	(18)	(59)	(53
IT Consulting	(3) (1)	(4) (1)	(3) (1)	(10) (3)	(3) (1)	(3) (1)	(3) (1)	(10)	(39) (14)	(43 (15
Legal & Accounting	(1)	(2)	(3)	(6)	(2)	(2)	(3)	(4) (7)	(30)	(33
Travel & Entertainment	(1)	(2)	(2)	(4)	(2)	(2)	(2)	(5)	(18)	(21
Facilities	(1)	(2)	(2)	(5)	(2)	(2)	(2)	(5)	(17)	(22
Other	(1)	(1)	(3)	(4)	(2)	(2)	(2)	(5)	(15)	(18
Total Operating Expense	(\$54)	(\$54)	(\$63)	(\$170)	(\$57)	(\$57)	(\$64)	(\$178)	(\$576)	(\$722
EBITDAB	\$93	\$5	\$100	\$198	\$16	\$44	(\$2)	\$58	\$1,255	\$831
EBIT excl. Bonus Margin	28.4%	2.0%	23.1%	19.8%	7.4%	17.1%	(1.1%)	8.4%	29.7%	21.6%
Bonus	(\$3)	(\$8)	(\$86)	(\$96)	(\$6)	(\$44)	-	(\$50)	(\$523)	(\$181
EBITDA	\$90	(\$3)	\$14	\$101	\$11	\$0	(\$2)	\$9	\$732	\$650
EBIT Margin	27.5%	(1.3%)	3.3%	10.2%	4.9%	0.1%	(1.1%)	1.2%	17.3%	16.9%
Head Count	1,847	1,908	1,932	1,932	1,962	1,977	1,992	1,992	1,932	2,232

(\$ in millions)		8-41-								
<u>-</u>	1Q19	Actuals 2Q19	3Q19	4Q19	1Q20F	2Q20F	3Q20F	4Q20F	2019A	2020
Fortnite	\$1,109	\$1,014	\$782	\$805	\$560	\$623	\$731	\$1,121	\$3,709	\$3,036
Other	0	13	43	43	27	34	96	94	100	251
Game Revenue	\$1,109	\$1,027	\$825	\$849	\$587	\$657	\$827	\$1,216	\$3,810	\$3,287
Game License & Royalties	\$12	\$21	\$15	\$31	\$27	\$23	\$15	\$18	\$79	\$82
Enterprise	2	1	3	3	2	2	2	4	10	10
UE Asset Marketplace	1	2	2	2	1	2	2	2	8	8
Engine Revenue	\$16	\$25	\$20	\$36	\$30	\$27	\$19	\$23	\$97	\$100
Epic Game Store	\$27	\$35	\$96	\$76	\$70	\$92	\$94	\$145	\$233	\$401
Merchandise/Other	\$10	\$15	\$20	\$38	\$7	\$11	\$15	\$28	\$82	\$60
Total Net Revenue	\$1,161	\$1,102	\$960	\$998	\$694	\$787	\$956	\$1,412	\$4,221	\$3,848
Platform Royalties	(\$305)	(\$292)	(\$227)	(\$233)	(\$159)	(\$178)	(\$221)	(\$327)	(\$1,057)	(\$885
Production/Hosting Costs	(70)	(71)	(69)	(80)	(69)	(66)	(70)	(75)	(290)	(281
Player Support	(13)	(15)	(15)	(16)	(15)	(14)	(13)	(13)	(59)	(56
SaC (Support-a-Creator)	(57)	(17)	(15)	(26)	(12)	(14)	(17)	(26)	(115)	(70
Core UA, Marketing, IP, etc	(42)	(29)	(26)	(64)	(31)	(81)	(50)	(75)	(161)	(238
UA	(99)	(46)	(41)	(90)	(43)	(96)	(68)	(101)	(276)	(307
Payment Processing Fees	(7)	(7)	(7)	(7)	(6)	(8)	(8)	(12)	(28)	(34
EGS/Marketplace Costs	(48)	(71)	(188)	(158)	(149)	(198)	(145)	(156)	(465)	(647
Esports Costs	(8)	(18)	(142)	(46)	(15)	(25)	(25)	(20)	(214)	(85
Cost of Sales	(\$549)	(\$521)	(\$690)	(\$630)	(\$457)	(\$584)	(\$550)	(\$704)	(\$2,390)	(\$2,295
Gross Income	\$612	\$581	\$270	\$368	\$237	\$203	\$406	\$708	\$1,831	\$1,554
Gross Margin	52.7%	52.7%	28.1%	36.9%	34.1%	25.8%	42.5%	50.2%	43.4%	40.4%
People	(\$52)	(\$60)	(\$77)	(\$85)	(\$86)	(\$88)	(\$93)	(\$99)	(\$275)	(\$365
Outsourcing	(20)	(22)	(31)	(38)	(39)	(40)	(38)	(35)	(110)	(152
Events/Marketing	(12)	(20)	(12)	(14)	(18)	(12)	(11)	(11)	(59)	(53
IT Community	(10)	(7)	(12)	(10)	(10)	(11)	(11)	(11)	(39)	(43
Consulting Legal & Accounting	(3) (6)	(5) (10)	(3) (8)	(3) (6)	(4) (7)	(4) (8)	(4) (8)	(4) (9)	(14) (30)	(15 (33
Travel & Entertainment	(4)	(4)	(5)	(4)	(5)	(5)	(6)	(5)	(18)	(21
Facilities	(3)	(4)	(5)	(5)	(5)	(5)	(6)	(6)	(17)	(22
Other	(3)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(15)	(18
Total Operating Expense	(\$114)	(\$135)	(\$156)	(\$170)	(\$178)	(\$178)	(\$182)	(\$185)	(\$576)	(\$722
EBITDAB	\$499	\$445	\$113	\$198	\$58	\$25	\$224	\$524	\$1,255	\$831
EBIT excl. Bonus Margin	42.9%	40.4%	11.8%	19.8%	8.4%	3.2%	23.5%	37.1%	29.7%	21.6%
Bonus	(\$180)	(\$143)	(\$103)	(\$96)	(\$50)	(\$28)	(\$38)	(\$66)	(\$523)	(\$181
EBITDA	\$318	\$302	\$10	\$101	\$9	(\$3)	\$187	\$458	\$732	\$650
EBIT Margin	27.4%	27.5%	1.1%	10.2%	1.2%	(0.3%)	19.5%	32.4%	17.3%	16.9%
Head Count	1,312	1,666	1,817	1,932	1,992	2,052	2,142	2,232	1,932	2,232

(in millions of US\$)	3 Months ended 12/31/2018	3 Months ended 12/31/2019	12 Months ended 12/31/2018	12 Months ended 12/31/2019
Cash flows from operating activities				
Net income	766	138	2,843	642
Non-cash flow adjustments	5	12	20	43
Net changes in working capital	(81)	(37)	(642)	190
Net cash provided by (used in) operating activities	691	113	2,221	875
Cash flows from investing activities				
Purchase of property and equipment	(5)	(29)	(36)	(63)
Investment in affiliate		(8)	-	(10)
Business aquisitions, net of cash acquired	(35)	(43)	(34)	(661)
Net cash (used in) investing activities	(40)	(80)	(70)	(734)
Cash Flows from financing activities				
Proceeds from line of credit	=	-	(15)	
Distribution of dividends	(173)	-	(173)	-
Share buyback	(1,096)	-	(1,096)	(261)
Proceeds from stock issuance	1,235	-	1,574	.=.
Proceeds from exercise of stock options	=	-	1	
Net cash provided by (used in) financing activities	(34)	-	291	(261)
Exchange differences on cash and cash equivalents	(0)	1	(0)	2
Net change in cash and cash equivalents	617	34	2,442	(118
Cash and cash equivalents (inclusive of marketable securities)				
Beginning of period	1,921	2,386	97	2,538
End of period	2,538	2,420	2,538	2,420

Current Assets Cash and cash equivalents Accounts receivable Income tax receivable Prepaids and other current assets Total Current Assets Non-Current Assets Property and equipment, net Goodwill Intangible assets, net CSV of life insurance Investments	2,538 767 - 46 3,351 61 41 1	2,774 490 - 272 3,536 74 148	2,275 458 - 448 3,181 93 780	2,386 372 - 328 3,086	2,420 413 4 333 3,170
Cash and cash equivalents Accounts receivable Income tax receivable Prepaids and other current assets Total Current Assets Non-Current Assets Property and equipment, net Goodwill Intangible assets, net CSV of life insurance	767 - 46 - 3,351 - 61 - 41 - 1	490 - 272 3,536 74 148	458 - 448 3,181	372 - 328 3,086	413 4 333 3,170
Accounts receivable Income tax receivable Prepaids and other current assets Total Current Assets Non-Current Assets Property and equipment, net Goodwill Intangible assets, net CSV of life insurance	767 - 46 - 3,351 - 61 - 41 - 1	490 - 272 3,536 74 148	458 - 448 3,181	372 - 328 3,086	413 4 333 3,170
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Non-Current Assets Property and equipment, net Goodwill Intangible assets, net CSV of life insurance	61 41 1	74 148	93	**	
Property and equipment, net Goodwill Intangible assets, net CSV of life insurance	41 1	148		109	440
Goodwill Intangible assets, net CSV of life insurance	41 1	148		109	440
Intangible assets, net CSV of life insurance	1		780		112
CSV of life insurance	20		, 50	767	666
	3	0	11	11	29
Investments		3	3	3	3
	1	1	3	3	10
Deferred tax asset	76	76	18	17	18
Other assets	2	1	4	10	15
Total Non-Current Assets	184	303	911	920	853
TOTAL ASSETS	3,536	3,839	4,093	4,006	4,023
LIABILITIES					
Current Liabilities					
Accounts payable	29	71	72	60	92
Accrued expenses	68	94	67	142	164
Income tax Payable	2	14	19	47	無
Current portion of deferred revenue	109	109	221	210	107
Total Current Liabilities	208	288	379	459	364
Long Term Liabilities					
Deferred revenue, less current	21	21	54	52	19
Loan payable, long-term	4	4	4	11	11
Other liabilities) =	7	=	
Total Long Term Liabilities	24	24	65	63	30
TOTAL LIABILITIES	232	312	443	522	394
EQUITY					
Common stock	-	-	-	О	4
Additional paid-in-capital	697	647	1,816	1,679	1,834
Unrealized FX gain/loss	(1)	(0)	1	(0)	
Retained earnings	2,608	2,880	1,833	1,805	1,794
Total Equity	3,304	3,526	3,650	3,484	3,629
TOTAL LIABILITIES AND EQUITY	3,536	3,839	4,093	4,006	4,023

Confidential Epic Games Board Only

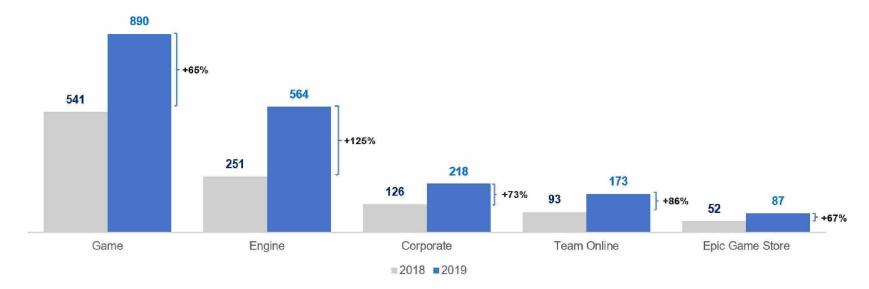
Epic Games -	- Headcount Summary
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	2018	2019	Δ	%∆	% of '19			
Game	541	890	349	+65%	46%			
Engine	251	564	313	+125%	29%			
Corporate	126	218	92	+73%	11%			
Team Online	93	173	80	+86%	9%			
Epic Game Store	52	87	35	+67%	5%			
Total	1,063	1,932	869	+82%	100%			
		M	⁸ A represe	nto				
	M&A represents							

36% of 2019

	2018	2019	Δ	%∆	% of '19
US	770	1309	539	+70%	68%
Serbia	0	117	117	*	6%
Canada	39	115	76	+195%	6%
China	79	94	15	+19%	5%
UK	70	86	16	+23%	4%
Sweden	10	50	40	+400%	3%
Finland	29	43	14	+48%	2%
Germany	23	41	18	+78%	2%
Korea	23	24	1	+4%	1%
Japan	12	20	8	+67%	1%
France	0	15	15	*	1%
Other	8	18	10	+125%	1%
	1,063	1,932	869	+82%	100%

2018 and 2019 Employee Summary



Epic Games - 4Q19 Business Report

Epic Board,

Epic generated \$998 million of gross revenue in 4Q19 to reach \$4.22 billion in 2019. Fortnite welcomed 11 million new players in December 2019, the highest monthly performance since December 2018 when 14 million new players joined the Fortnite ecosystem. Fortnite finished the year with 68 million MAUs in December 2019 and maintained that player base in January 2020. The Epic Game Store finished 2019 with 30 million life-to-date PC accounts (ex-Fortnite) and \$233 million in gross revenue. We see 2020 as a year of investment across all core businesses and are taking the necessary steps to return Fortnite to growth mode towards the end of the year.

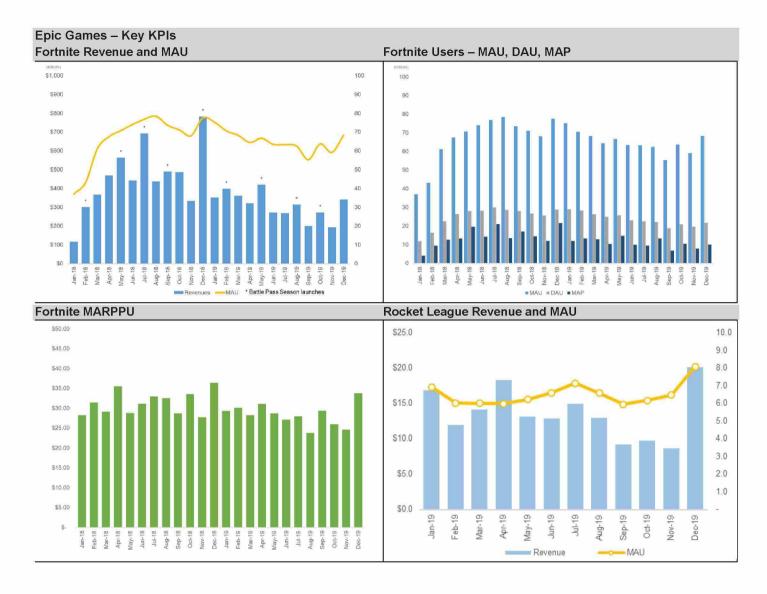
Highlights:

- Total gross revenue in 4Q19 was \$998 million, down 40% YoY. Total gross revenue in 2019 was \$4.22 billion, down 25% YoY.
- Game revenue in 4Q19 was \$849 million, 85% of total gross revenue. Game revenue in 2019 was \$3.81 billion, representing 90% of revenue.
 - Fortnite generated \$805 million in revenue during the quarter —

 Full year Fortnite revenue in 2019 was \$3.71 billion.
 - Rocket League generated \$41 million in gross revenue during the fourth quarter with \$20 million in December alongside the launch of the Item Shop.
- Engine revenue in 4Q19 was \$36 million. Engine revenue for 2019 was \$97 million.
 - Engine License & Royalty revenue in 4Q19 was \$31 million, 85% of total Engine revenue.
 - Engine Enterprise contributed \$3 million in 4Q19. Total 2019 enterprise revenue was \$10 million.
 - Engine Marketplace recorded revenue of \$2 million in 4Q19. Total Engine Marketplace revenue in 2019 was \$8 million.
- Epic Game Store generated \$76 million in 4Q19. The Epic Games Store ended December with 8 million MAUs. For the full 2019 year, Epic Game Store achieved \$233 million in gross sales.
- **EBITDAB in 4Q19 was \$198 million.** Full year 2019 EBITDAB was \$1.26 billion. Gross margin for the quarter was 37%, behind 43% for the full year primarily driven by Epic Game Store costs and higher levels of UA spend around the holiday season. Operating expenses were \$170 million for the quarter, while 2019 operating expenses were \$576 million. EBITDA in 4Q19 was \$101 million, reflecting \$96 million in bonus-related compensation (~\$20 million was M&A related). Full year 2019 EBITDA was \$732 million.
- Cash balance was \$2.4 billion as of December 31st. Accounts Receivable at quarter end was \$413 million. Approximately 98% of cash is in US dollars with 63% held by Epic Games, Inc.

2020 Outlook

- Fortnite Our key focus in 2020 is to return Fortnite to growth mode and evolve Battle Royale by offering new playing experiences. The release of Chapter 2 and new features such as skill-based match-making, bots, and split-screen have enabled us to re-engage lapsed players and retain existing players, highlighted by our success in maintaining 68 million MAUs in January 2020 (equal to December 2019). We expect to do more brand integrations over the course of 2020 and evolve the game across multiple areas: new physics system; enhanced UI and storefront; an immersive, emergent, shared world; gameplay that feels real and maps to the physical world; a progression system; questing; PvE interactions, and an MMO-lite experience for the holidays.
- Project Valkyrie In 2020, we are also focused on building out a suite of UE development tools within
 Fortnite to enable creators to generate new content. We expect Valkyrie to grow Fortnite Creative
 significantly from the 46 million MAUs at the end of 2019 and drive the next leg of growth for the platform.
- **Epic Game Store** We plan to continue investing in the Epic Games Store in 2020 with fewer, bigger, better titles to minimize MG risk, along with shipping critical player and developer store features, and building out a 3rd-party publishing arm with 50/50 economics after we recoup full development and marketing expenses.
- Engine Our priority in 2020 is to gain adoption in Enterprise and capture fair value with game licensing and royalties. We see the upcoming release of Unreal Engine 5 (to be announced at GDC 2020 in March) in 2021 as a major catalyst for the business.
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 down from \$214 million in 2019.
- While we continue to scale out our businesses, our hiring plans reflect a moderation in hiring and we expect an increase of 300 employees this year to reach 2,232 globally by the end of 2020.



Epic Games - Quarterly Income Statement, 2019A - 2020F

(\$ in millions)										
-	1Q19	Actuals 2Q19	3Q19	4Q19	1Q20F	2Q20F	3Q20F	4Q20F	2019A	2020
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Game License & Royalties	\$12	\$21	\$15	\$31	\$27	\$23	\$15	\$18	\$79	\$82
Enterprise	2	1	3	3	2	2	2	4	10	10
UE Asset Marketplace	1	2	2	2	1	2	2	2	8	8
Engine Revenue	\$16	\$25	\$20	\$36	\$30	\$27	\$19	\$23	\$97	\$100
Epic Game Store	\$27	\$35	\$96	\$76	\$70	\$92	\$94	\$145	\$233	\$401
Merchandise/Other	\$10	\$15	\$20	\$38	\$7	\$11	\$15	\$28	\$82	\$60
Total Net Revenue	\$1,161	\$1,102	\$960	\$998	\$694	\$787	\$956	\$1,412	\$4,221	\$3,848
Platform Royalties	(\$305)	(\$292)	(\$227)	(\$233)	(\$159)	(\$178)	(\$221)	(\$327)	(\$1,057)	(\$885)
Production/Hosting Costs	(70)	(71)	(69)	(80)	(69)	(66)	(70)	(75)	(290)	(281)
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SaC (Support-a-Creator)	(57)	(17)	(15)	(26)	(12)	(14)	(17)	(26)	(115)	(70
Core UA, Marketing, IP, etc	(42)	(29)	(26)	(64)	(31)	(81)	(50)	(75)	(161)	(238
UA	(99)	(46)	(41)	(90)	(43)	(96)	(68)	(101)	(276)	(307
Payment Processing Fees	(7)	(7)	(7)	(7)	(6)	(8)	(8)	(12)	(28)	(34)
EGS/Marketplace Costs	(48)	(71)	(188)	(158)	(149)	(198)	(145)	(156)	(465)	(647)
Esports Costs	(8)	(18)	(142)	(46)	(15)	(25)	(25)	(20)	(214)	(85)
Cost of Sales	(\$549)	(\$521)	(\$690)	(\$630)	(\$457)	(\$584)	(\$550)	(\$704)	(\$2,390)	(\$2,295)
Gross Income	\$612	\$581	\$270	\$368	\$237	\$203	\$406	\$708	\$1,831	\$1,554
Gross Margin	52.7%	52.7%	28.1%	36.9%	34.1%	25.8%	42.5%	50.2%	43.4%	40.4%
People	(\$52)	(\$60)	(\$77)	(\$85)	(\$86)	(\$88)	(\$93)	(\$99)	(\$275)	(\$365)
Outsourcing	(20)	(22)	(31)	(38)	(39)	(40)	(38)	(35)	(110)	(152)
Events/Marketing	(12)	(20)	(12)	(14)	(18)	(12)	(11)	(11)	(59)	(53)
IT Consulting	(10)	(7)	(12)	(10)	(10)	(11)	(11)	(11)	(39)	(43
Consulting Legal & Accounting	(3) (6)	(5) (10)	(3) (8)	(3) (6)	(4) (7)	(4) (8)	(4) (8)	(4) (9)	(14)	(15 (33
Travel & Entertainment	(4)	(4)	(5)	(4)	(5)	(5)	(6)	(5)	(18)	(21)
Facilities	(3)	(4)	(5)	(5)	(5)	(5)	(6)	(6)	(17)	(22)
Other	(3)	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(15)	(18)
Total Operating Expense	(\$114)	(\$135)	(\$156)	(\$170)	(\$178)	(\$178)	(\$182)	(\$185)	(\$576)	(\$722
EBITDAB	\$499	\$445	\$113	\$198	\$58	\$25	\$224	\$524	\$1,255	\$831
EBIT excl. Bonus Margin	42.9%	40.4%	11.8%	19.8%	8.4%	3.2%	23.5%	37.1%	29.7%	21.6%
Bonus	(\$180)	(\$143)	(\$103)	(\$96)	(\$50)	(\$28)	(\$38)	(\$66)	(\$523)	(\$181
EBITDA	\$318	\$302	\$10	\$101	\$9	(\$3)	\$187	\$458	\$732	\$650
EBIT Margin	27.4%	27.5%	1.1%	10.2%	1.2%	(0.3%)	19.5%	32.4%	17.3%	16.9%
Head Count	1,312	1,666	1,817	1,932	1,992	2,052	2,142	2,232	1,932	2,232

Epic Games - Cash Flow Statement

(in millions of US\$)	3 Months ended 12/31/2018	3 Months ended 12/31/2019	12 Months ended 12/31/2018	12 Months ended 12/31/2019
Cash flows from operating activities				
Net income	766	138	2,843	642
Non-cash flow adjustments	5	12	20	43
Net changes in working capital	(81)	(37)	(642)	190
Net cash provided by (used in) operating activities	691	113	2,221	875
Cash flows from investing activities				
Purchase of property and equipment	(5)	(29)	(36)	(63)
Investment in affiliate	-	(8)	-	(10)
Business aquisitions, net of cash acquired	(35)	(43)	(34)	(661)
Net cash (used in) investing activities	(40)	(80)	(70)	(734)
Cash Flows from financing activities				
Proceeds from line of credit	-	-	(15)	-
Distribution of dividends	(173)	-	(173)	Ħ
Share buyback	(1,096)	-	(1,096)	(261)
Proceeds from stock issuance	1,235	-	1,574	-
Proceeds from exercise of stock options		-	1	
Net cash provided by (used in) financing activities	(34)	-	291	(261)
Exchange differences on cash and cash equivalents	(0)	1	(0)	2
Net change in cash and cash equivalents	617	34	2,442	(118)
Cash and cash equivalents (inclusive of marketable securities)				
Beginning of period	1,921	2,386	97	2,538
End of period	2,538	2,420	2,538	2,420

(\$ in millions)	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019
ASSETS					
Current Assets					
Cash and cash equivalents	2,538	2,774	2,275	2,386	2,420
Accounts receivable	767	490	458	372	413
Income tax receivable	-	:-	-	-3	4
Prepaids and other current assets	46	272	448	328	333
Total Current Assets	3,351	3,536	3,181	3,086	3,170
Non-Current Assets					
Property and equipment, net	61	74	93	109	112
Goodwill	41	148	780	767	666
Intangible assets, net	1	0	11	11	29
CSV of life insurance	3	3	3	3	3
Investments	1	1	3	3	10
Deferred tax asset	76	76	18	17	18
Other assets	2	1	4	10	15
Total Non-Current Assets	184	303	911	920	853
TOTAL ASSETS	3,536	3,839	4,093	4,006	4,023
LIABILITIES					
Current Liabilities					
Accounts payable	29	71	72	60	92
Accrued expenses	68	94	67	142	164
Income tax Payable	2	14	19	47	~
Current portion of deferred revenue	109	109	221	210	107
Total Current Liabilities	208	288	379	459	364
Long Term Liabilities					
Deferred revenue, less current	21	21	54	52	19
Loan payable, long-term	4	4	4	11	11
Other liabilities	-	2=	7		
Total Long Term Liabilities	24	24	65	63	30
TOTAL LIABILITIES	232	312	443	522	394
EQUITY					
Common stock	-	4 =		0	1
Additional paid-in-capital	697	647	1,816	1,679	1,834
Unrealized FX gain/loss	(1)	(0)	1	(0)	1
Retained earnings	2,608	2,880	1,833	1,805	1,794
Total Equity	3,304	3,526	3,650	3,484	3,629
TOTAL LIABILITIES AND EQUITY	3,536	3,839	4,093	4,006	4,023
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